

A REPORT TO INDIANA CITIZENS ON THE STATE'S FINANCES



*Connie K. Nass
Auditor of State*

Volume III, Issue IV
June 30, 2006

www.in.gov/auditor



Auditor of State

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To my fellow Indiana Citizens:

I hope you find the information in this "Report to Indiana Citizens on the State's Finances" helpful in explaining the sometimes complicated world of Indiana government finances. This edition, our 12th, presents figures related to the end of the 2006 fiscal year on June 30, 2006. Our aim in writing this report to you is to provide an enhanced understanding of the state's "Surplus" and other fiscal year numbers.

On pages two and three, this report provides the best end-of-fiscal-year news we've had to report in at least three years:

- We ended the fiscal year in the black with the state's first True Surplus in three years. Our bottom line is greater than it has been in five years.
- Payment delay obligations to K-12 schools were paid down, an obligation which began in 2002 and had increased every year since.
- Total payment delays were reduced for the first time in five years.
- In addition to growth in the 3 primary sources of state tax revenue, the state's tax amnesty program brought in \$244 million in additional revenues in FY 2006.

The center of this report explains the flow and structure of the funds received by the state under the lease of the Indiana Toll Road. This \$3.8 billion is not considered part of state government's operating revenues, and is therefore accounted for separately and apart from the state's surplus.

The final pages of this Report again detail the state's primary revenue sources by fiscal year through June 30, 2006.

This is my final Report to Indiana Citizens on the State's Finances. The Indiana Constitution limits four state-wide elected officials to two consecutive terms, eight years, and my term will expire at the beginning of 2007. It has been a privilege and honor to serve you as Auditor of State for the past 8 years. I am confident this tradition of providing honest, understandable reports on your government's finances will continue in the years to come.

If you have questions or comments about this publication or its contents, please e-mail me at comments@auditor.in.gov or call (317) 232-3300. You may also view this report along with other pertinent information on our website at www.in.gov/auditor.

Sincerely,
Connie Nass
Auditor of State

Cash and Investment Balances (all funds) as of June 30, 2006

	Surplus Accounts	Non-Surplus Accounts	Total
General Fund Cash and Investments	\$ 725,292,022	\$ 547,386,315	\$ 1,272,678,337
Property Tax Replacement Fund	\$ 3,953,936		\$ 3,953,936
Rainy Day Fund	328,085,919		\$ 328,085,919
Medicaid Reserve Fund	34,000,000		\$ 34,000,000
Total General Fund Cash and Investments	\$ 1,091,331,877	\$ 547,386,315	\$ 1,638,718,192
Non General Fund Cash and Investments	\$ -	\$ 2,338,845,575	\$ 2,338,845,575
Grand Total All Funds Cash and Investments	\$ 1,091,331,877	\$ 2,886,231,890	\$ 3,977,563,767

True Surplus Positive for First Time Since Fiscal Year 2003

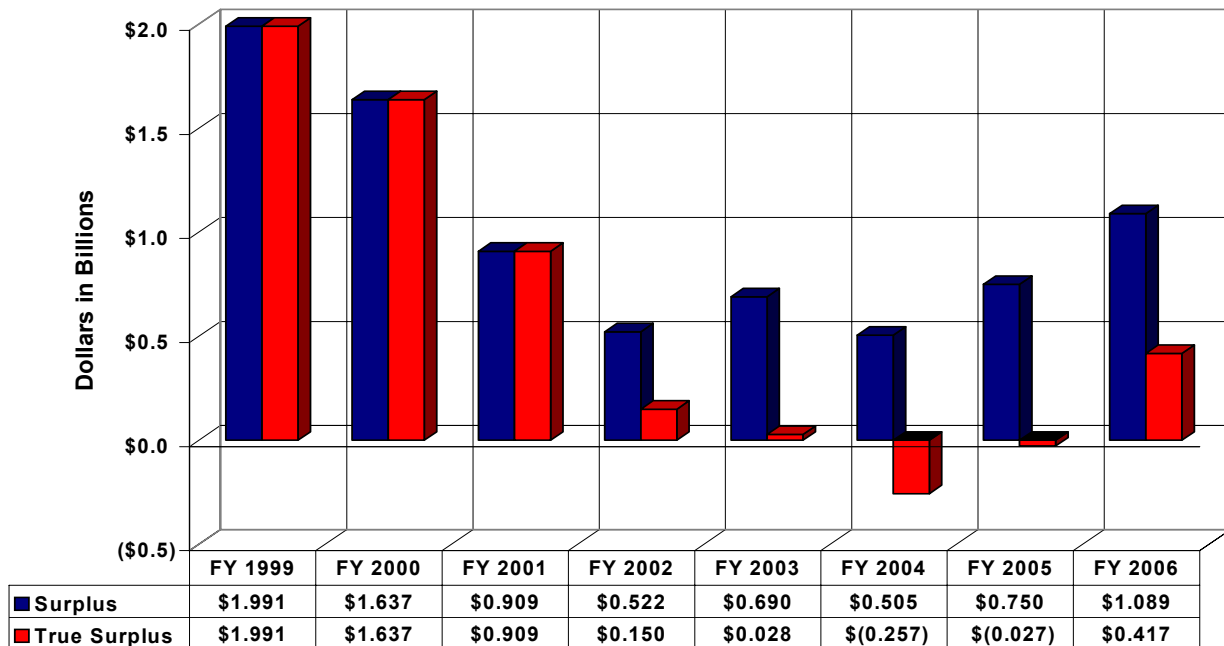
The State Surplus is computed at the end of each fiscal year, June 30, when State government examines whether any money remains in the General Fund, its operating account. The Surplus is supposed to reflect the cash that the State government has on hand to pay its ongoing operating expenses. But because prior budgets from the 2002-2005 fiscal years borrowed money from other sources, or delayed payments beyond the fiscal year end, the Surplus no longer reflects actual unobligated cash on hand.

The True Surplus depicted below gives a picture of the State's actual bottom line at fiscal year end. The True Surplus calculation accounts for payment delays to schools, universities, counties, cities and towns, and also acknowledges an interest free loan to the general fund from the Public Deposit Insurance Fund. At over \$417 million, the True Surplus reflects the true fiscal condition of State government's operating accounts as of June 30, 2006.

The True Surplus for fiscal year 2006 returned to positive territory for the first time in three years. Even better, the bottom line reflected by the True Surplus is at its highest level since FY 2001.

The total cash and investment balances for state government at the end of FY 2006 were \$3.978 billion. This total includes all Surplus accounts plus dedicated accounts set apart from the general fund surplus accounts for specific purposes, but does not include the Indiana Toll Road lease proceeds. The month-end balance as of June 30 was the highest month-end balance since reaching \$3.998 billion on July 31, 2001, and over \$2 billion greater than the low month-end balance of \$1.713 billion on November 30, 2004.

**General Fund and Property Tax Replacement Fund
Comparison of Surplus and True Surplus**



	Dollars in Thousands							
	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Surplus	\$ 1,990,786	\$ 1,637,448	\$ 908,742	\$ 522,006	\$ 689,706	\$ 505,222	\$ 749,733	\$ 1,089,370
Payment Delays								
Higher Education	-	-	-	(94,931)	(96,346)	(98,226)	(101,871)	(102,160)
Tuition Support	-	-	-	(277,289)	(289,910)	(290,514)	(299,124)	(160,123)
Property Tax Replacement Credit & Homestead Credit	-	-	-	0	(275,552)	(323,361)	(325,799)	(359,747)
Total Payment Delays	\$ -	\$ -	\$ -	\$ (372,220)	\$ (661,808)	\$ (712,101)	\$ (726,794)	\$ (622,031)
Loan Payable to Public Deposit Insurance Fund	-	-	-	-	-	(50,000)	(50,000)	(50,000)
Total Payment Delays + Loan	\$ -	\$ -	\$ -	\$ (372,220)	\$ (661,808)	\$ (762,101)	\$ (776,794)	\$ (672,031)
True Surplus	\$ 1,990,786	\$ 1,637,448	\$ 908,742	\$ 149,786	\$ 27,899	\$ (256,879)	\$ (27,061)	\$ 417,339
Change in Payment Delays + Loan	\$ -	\$ -	\$ -	\$ 372,220	\$ 289,587	\$ 100,294	\$ 14,692	\$ (104,763)

Payment Delays Decreasing

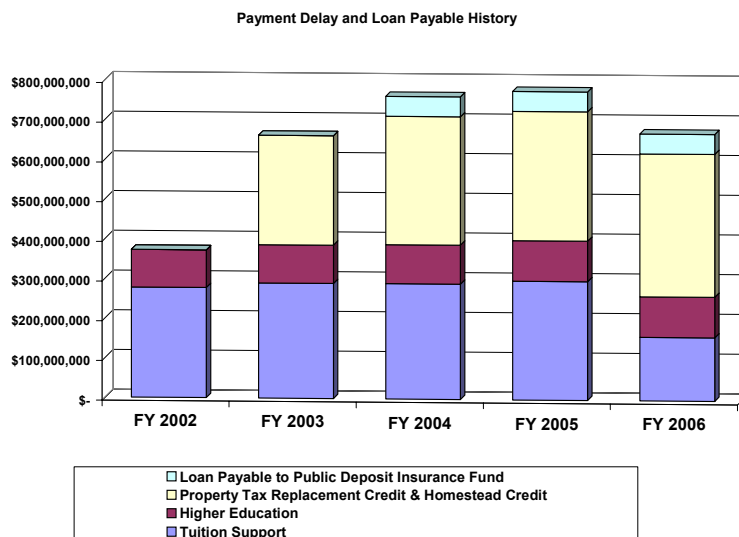
The payment delays which for the past five (5) years have skewed the state's Surplus balance have grown from year to year. There are three main components to the delays. Why and how they change is important.

Higher education delays result from a shift of the June payment to colleges and universities into July. Each month for the remainder of the year is then paid one month in arrears, until the payment is caught up at the end of the calendar year. The amount increases because the delay is 1/12th of the budgeted higher education support and the total support for the year increases from one year to the next.

Tuition support payment delays are payments to your local K-12 schools. Like higher education, the June payment is shifted beyond the fiscal year end. This year the total tuition support delays were paid down by \$156.4 million from revenues received under the state's tax amnesty program.

Property Tax Replacement Credit (PTRC) payment delays to all counties, cities, and towns began in 2003. There was a significant increase in PTRC delays this year due to an increase in the homestead credit from 20% to 28% for homeowners throughout Indiana. Only a portion of the PTRC delays were the result of the deliberate decision at the state level to delay payments. The remainder of the PTRC delays occurred because some counties did not submit their property tax data to the state in time to have the county's PTRC payment made by the end of the fiscal year. In those cases, the state had no choice but to delay the county's payment because the county did not provide the necessary information to calculate the credit.

On July 12, 2006, it was announced that the remaining payment of \$160 million planned for September 2006 has been rescheduled for July 21, 2006. As a result, tuition support payment delays will be completely eliminated by the end of the 2007 fiscal year. The General Assembly has also planned to repay up to \$40 million in higher education delays and \$136.5 million in PTRC delays during FY 2007.



MAJOR MOVES

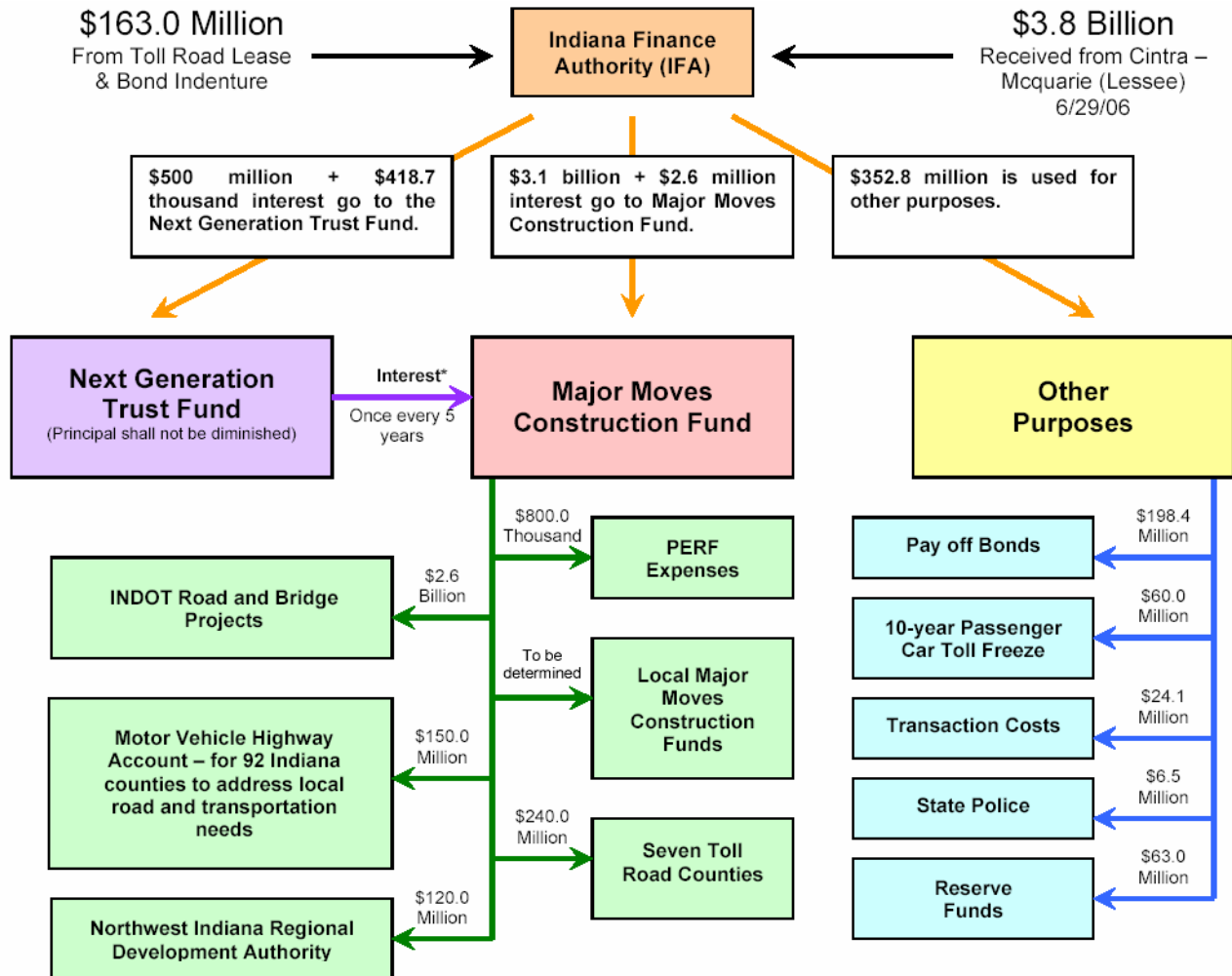
Major Moves is the name given to the investment plan in Indiana's infrastructure which is funded through the lease of the Indiana Toll Road.

The flow chart, map, and table presented on pages 4 and 5 of this Report outline how the \$3.8 billion received from the toll road lease will be distributed to counties, cities, and towns, and identify amounts that will be available for construction and other purposes.

In addition to the Major Moves Construction Fund, the General Assembly created the Next Generation Trust Fund. The Trust Fund received \$500 million of the proceeds from the toll road lease. The Trust Fund will accumulate interest for five years, and then that interest will be transferred to the Major Moves Construction Fund, beginning March 15, 2011, to pay for future local construction projects. The process of earning five years of interest and then transferring the earnings will then be repeated every five years. By law, the \$500 million principal will remain in the Trust Fund in perpetuity.

Detailed information about Major Moves projects can be found on the Indiana Department of Transportation web site, www.in.gov/dot/div/projects/tenyear/.

How the Toll Road Lease Proceeds are Allocated



The Northwest Indiana Regional Development Authority

Established in 2005, the Northwest Indiana Regional Development Authority (NIRDA) is authorized to assist Lake and Porter Counties through a commuter transportation district, an airport authority, an airport development authority, a regional bus authority, and a shoreline development commission. This assistance may come in the form of, among other things, loans, grants, bonds, leases, or other actions.

The Northwest Indiana region is the gateway to Indiana for the most substantial population center near our borders. NIRDA is required to submit a comprehensive strategic development plan to the General Assembly's Budget Committee and the Director of the Indiana Office of Management and Budget. LaPorte County has the opportunity to join NIRDA by September 1, 2006.

Counties, Cities, & Towns' Initial Share of Toll Road Lease Proceeds in FY07 & FY08

(1)		(2)			(1)		(2)		
Toll Road		Estimated Distribution			Toll Road		Estimated Distribution		
County	County Distribution	County Portion	City & Town Portion	Total	County	County Distribution	County Portion	City & Town Portion	Total
Adams		\$ 911,344	\$ 217,498	\$ 1,128,842	Lawrence		\$ 980,654	\$ 268,592	\$ 1,249,246
Allen		3,080,059	3,333,906	6,413,964	Madison		1,625,658	1,260,991	2,886,649
Bartholomew		1,133,493	585,466	1,718,959	Marion			11,130,863	11,130,863
Benton		779,915	89,687	869,602	Marshall		1,228,426	270,949	1,499,375
Blackford		456,246	124,393	580,639	Martin		482,854	51,701	534,555
Boone		1,138,822	366,645	1,505,467	Miami		1,045,076	224,210	1,269,286
Brown		548,420	11,371	559,791	Monroe		1,244,373	1,027,712	2,272,085
Carroll		947,162	87,895	1,035,058	Montgomery		1,095,432	288,715	1,384,148
Cass		1,140,569	319,741	1,460,310	Morgan		1,148,822	342,718	1,491,540
Clark		1,062,296	857,793	1,920,089	Newton		810,053	72,417	882,470
Clay		870,575	160,201	1,030,776	Noble		1,117,766	280,804	1,398,570
Clinton		1,011,073	296,365	1,307,438	Ohio		227,401	34,044	261,446
Crawford		577,323	39,144	616,467	Orange		768,935	119,582	888,517
Daviess		1,004,303	201,372	1,205,674	Owen		810,823	44,423	855,246
Dearborn		828,710	217,208	1,045,918	Parke		887,950	78,950	966,899
Decatur		850,927	183,922	1,034,849	Perry		651,831	130,195	782,026
Dekalb		1,022,873	341,022	1,363,895	Pike		685,598	50,694	736,293
Delaware		1,435,457	1,098,984	2,534,441	Porter	\$ 25,000,000	1,578,383	1,178,127	2,756,511
Dubois		959,693	291,307	1,251,000	Posey		918,877	143,813	1,062,690
Elkhart	\$ 40,000,000	2,141,442	1,306,517	3,447,959	Pulaski		1,012,844	56,773	1,069,617
Fayette		561,358	212,412	773,770	Putnam		1,000,676	202,970	1,203,647
Floyd		722,979	557,128	1,280,107	Randolph		1,072,423	197,237	1,269,660
Fountain		816,992	135,778	952,770	Ripley		946,179	175,762	1,121,942
Franklin		817,397	57,462	874,859	Rush		919,461	99,804	1,019,265
Fulton		964,517	116,192	1,080,709	St. Joseph	40,000,000	2,389,591	2,243,095	4,632,685
Gibson		1,208,948	247,655	1,456,603	Scott		503,479	148,362	651,840
Grant		1,219,651	684,843	1,904,493	Shelby		1,163,418	263,037	1,426,456
Greene		1,114,077	186,789	1,300,866	Spencer		928,041	100,217	1,028,258
Hamilton		2,037,302	2,075,078	4,112,380	Starke		870,947	85,676	956,623
Hancock		1,080,942	301,382	1,382,324	Steuben	40,000,000	872,774	157,872	1,030,646
Harrison		1,089,954	60,921	1,150,875	Sullivan		1,038,807	135,654	1,174,461
Hendricks		1,498,989	689,391	2,188,380	Switzerland		467,585	26,698	494,283
Henry		1,112,973	361,766	1,474,739	Tippecanoe		1,529,345	1,297,103	2,826,448
Howard		1,161,048	685,725	1,846,773	Tipton		721,158	95,944	817,103
Huntington		942,798	313,139	1,255,937	Union		368,834	37,146	405,979
Jackson		1,024,105	319,962	1,344,067	Vanderburgh		1,424,150	1,693,878	3,118,028
Jasper		1,185,959	146,418	1,332,377	Vermillion		543,744	136,343	680,087
Jay		919,497	160,518	1,080,016	Vigo		1,359,274	872,279	2,231,553
Jefferson		765,590	224,348	989,938	Wabash		979,904	272,313	1,252,218
Jennings		880,783	94,346	975,129	Warren		665,479	43,059	708,538
Johnson		1,273,573	1,005,700	2,279,274	Warrick		1,083,227	202,929	1,286,156
Knox		1,141,613	349,127	1,490,740	Washington		990,201	121,622	1,111,824
Kosciusko		1,662,179	360,567	2,022,746	Wayne		1,122,874	675,553	1,798,427
LaGrange	40,000,000	1,004,247	76,455	1,080,702	Wells		928,516	188,181	1,116,697
Lake	15,000,000	2,579,089	6,116,031	8,695,120	White		1,130,059	159,815	1,289,874
LaPorte (3)	40,000,000	1,662,558	929,989	2,592,548	Whitley		870,940	148,954	1,019,894
Northwest Indiana Regional Development Authority (NIRDA)						50,000,000			
						\$ 290,000,000	\$ 96,562,664	\$ 53,437,336	\$ 150,000,000

(1) The amount in this column includes the amount to be distributed to the county and the cities and towns within the county on or before September 15, 2006.

(2) These estimated distributions will be paid in two installments on October 15, 2006 and 2007. The distribution is based on a highway funding formula which takes into account population, road mileage, and vehicle registrations.

(3) If LaPorte County joins the Regional Development Authority before September 2006, it will receive \$25,000,000 instead of \$40,000,000, and receive the benefits of NIRDA membership.

Understanding Toll Road Lease Distributions

All 92 counties, and their cities and towns, will share in \$75 million in distributions from the Major Moves Construction Fund twice – on or before October 15, 2006 and 2007, apportioned based upon the Motor Vehicle Highway Fund distribution formula. The seven toll road counties (Elkhart, LaGrange, Lake, LaPorte, Porter, St. Joseph, and Steuben), their cities and towns, and the Northwest Indiana Regional Development Authority (NIRDA), will receive additional distributions. NIRDA will receive \$40 million in FY 2007, half of which must go toward an airport expansion project. NIRDA will also receive \$80 million in \$10 million increments in each fiscal year from FY 2008 through FY 2015. On or before September 15, 2006, Lake County will receive an additional \$15 million and Porter County an additional \$25 million, while the remaining toll road counties will each receive an additional \$40 million. If LaPorte County joins NIRDA before September 2006, it will receive \$25 million instead of \$40 million, and receive the benefits of NIRDA membership.

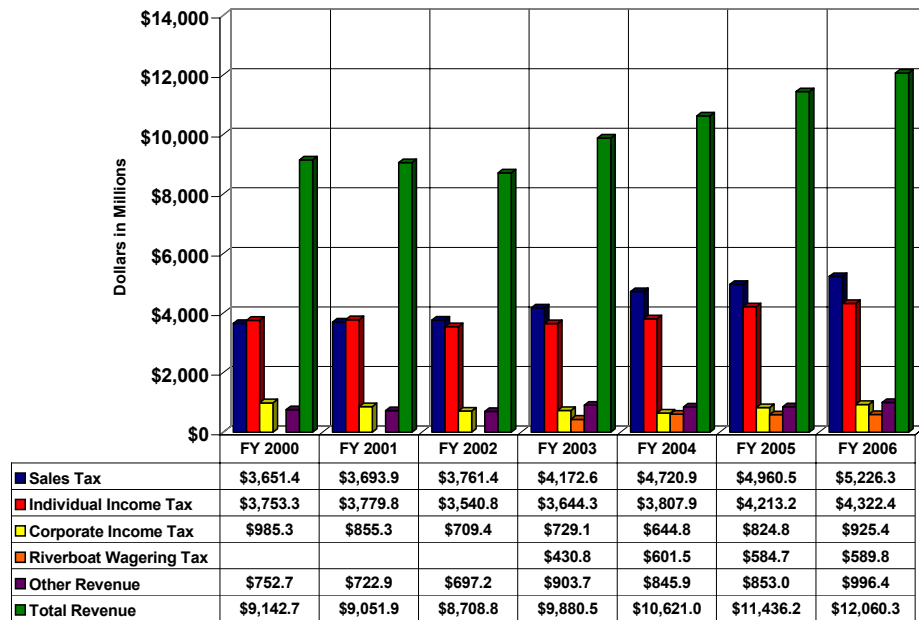
General and Property Tax Replacement Fund Revenue Trends (Cash Basis)

A Detailed Analysis of the Four Primary Revenue Sources Funding State Government

Not including tax amnesty revenue, total revenue grew by 5.5% in the 2006 fiscal year.

That's less than the three prior fiscal years (2003 through 2005), which grew at 13.5%, 7.5%, and 7.7%, respectively. Total revenues actually declined from fiscal year 2000 through fiscal year 2002. In addition to the total revenues listed on these pages, there was a tax amnesty program in FY 2006 that brought in \$244.7 million. Of that total, \$118.5 million was corporate income taxes, \$59.3 million was individual income taxes, and \$66.5 million was sales taxes.

General Fund and Property Tax Replacement Fund Revenue by Type



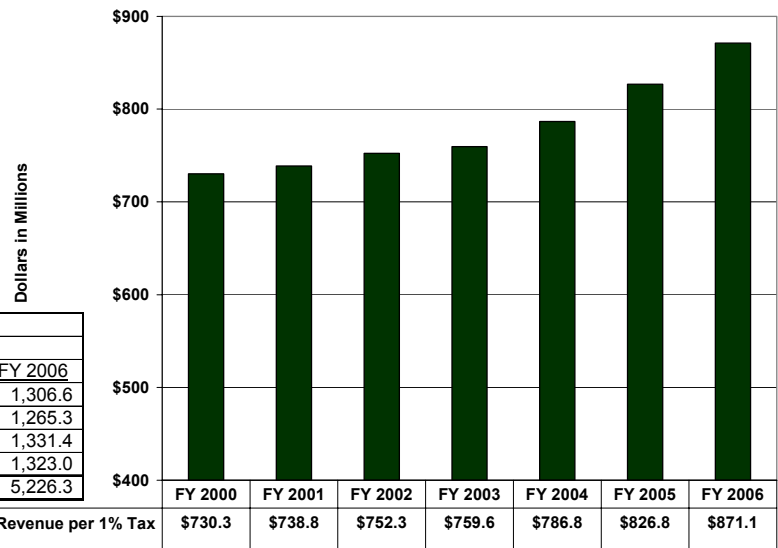
Fiscal Year-to-Year Percentage Change in Revenue by Type

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Sales Tax	1.16%	1.83%	10.93%	13.15%	5.08%	5.36%
Individual Income Tax	0.71%	-6.32%	2.92%	4.49%	10.64%	2.59%
Corporate Income Tax	-13.19%	-17.06%	2.79%	-11.57%	27.92%	12.20%
Riverboat Wagering Tax	N/A	N/A	N/A	39.66%	-2.79%	0.87%
Other Revenue	-3.96%	-3.56%	29.60%	-6.39%	0.84%	16.81%
Total Revenue	-0.99%	-3.79%	13.45%	7.50%	7.68%	5.46%

State Sales Tax

Sales tax revenues, at \$871.1 million per percent of tax levied, set a record of \$5.226 billion in FY 2006. That represents 5.4% growth for the fiscal year. From FY 2000 through 2005, sales tax revenues grew 1.2%, 1.8%, 1.0%, 3.6%, and 5.1%, respectively (adjusted for the increase from 5 to 6% in December 2002).

Sales Tax Revenue per 1% Tax Rate
(General Fund and Property Tax Replacement Fund Portion)



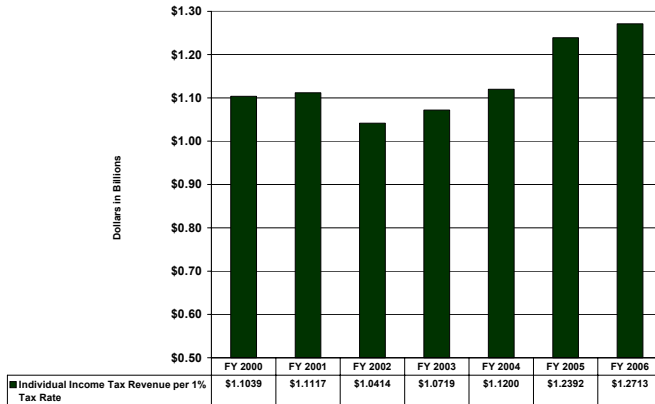
Sales Tax (Dollars in Millions)						
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1st Quarter	903.9	953.1	978.9	1,172.8	1,247.5	1,306.6
2nd Quarter	895.3	942.3	945.6	1,152.0	1,202.2	1,265.3
3rd Quarter	970.1	933.3	1,111.7	1,193.1	1,251.4	1,331.4
4th Quarter	924.6	932.7	1,136.4	1,203.0	1,259.4	1,323.0
Total	3,693.9	3,761.4	4,172.6	4,720.9	4,960.5	5,226.3

General and Property Tax Replacement Fund Revenue Trends (Cash Basis)

A Detailed Analysis of the Four Primary Revenue Sources Funding State Government

Individual Income Tax

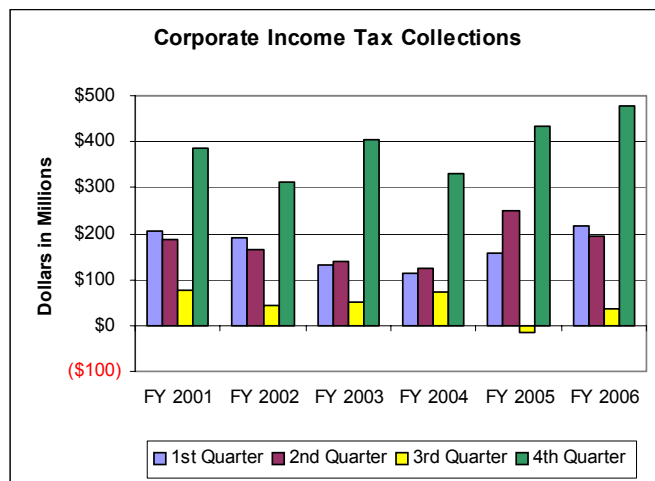
Individual Income Tax Revenue per 1% Tax Rate
(General Fund and Property Tax Replacement Fund Portion)



Individual income tax receipts also set a new record in FY 2006, at \$4.322 billion, an increase of 2.6% over the prior fiscal year. That's increased revenues of \$109.2 million. Income tax revenues have not, however, provided steady growth over the decade. FY 2002 receipts were 6.3% below the prior year, and grew by only 2.9% and 4.5% in the following two years before jumping up 10.6% in FY 2005.

Individual Income Tax (Dollars in Millions)						
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1st Quarter	912.6	860.2	884.7	904.0	980.8	974.2
2nd Quarter	762.1	770.8	799.7	841.6	903.7	909.5
3rd Quarter	859.3	793.7	832.8	845.4	938.3	971.2
4th Quarter	1,245.8	1,116.1	1,127.1	1,216.9	1,390.4	1,467.5
Total	3,779.8	3,540.8	3,644.3	3,807.9	4,213.2	4,322.4

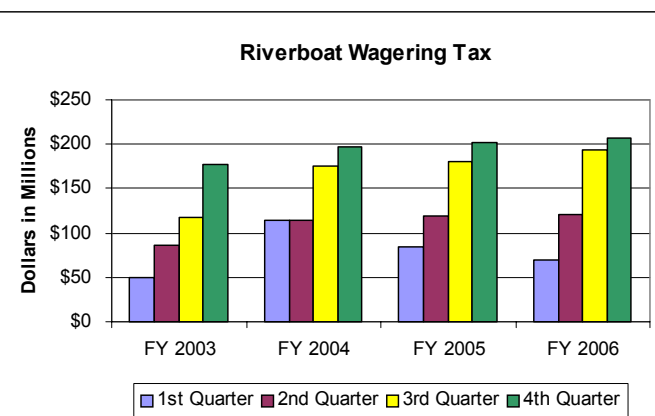
Corporate Income Tax



Corporate income tax revenues for FY 2006 outperformed FY 2005 by 12.2%. That represents increased revenues of \$100.6 million in one year. The \$925.4 million in corporate income tax receipts is the highest total since Indiana collected \$855.3 million in corporate income taxes five years ago.

Corporate Income Tax (Dollars in Millions)						
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1st Quarter	205.6	189.8	132.3	114.2	157.4	218.1
2nd Quarter	187.9	164.5	140.5	125.8	249.6	192.9
3rd Quarter	75.7	44.2	50.2	73.9	(14.2)	36.6
4th Quarter	386.1	310.9	406.1	330.9	432.0	477.8
Total	855.3	709.4	729.1	644.8	824.8	925.4

Riverboat Wagering Tax



Riverboat wagering tax revenues were essentially unchanged from FY 2005, coming in at \$589.8 million, a less than one percent increase of \$5.1 million. Riverboat wagering taxes peaked in FY 2004 at \$601.5 million, and have since retreated slightly.

Riverboat Wagering Tax (Dollars in Millions)				
	FY 2003	FY 2004	FY 2005	FY 2006
1st Quarter	49.4	114.0	84.2	68.8
2nd Quarter	86.2	114.6	118.9	121.2
3rd Quarter	118.3	175.9	180.3	192.9
4th Quarter	176.9	197.0	201.3	206.9
Total	430.8	601.5	584.7	589.8